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FROM THE AMBASSADOR FOR THE SECRETARY
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SUBJECT: ENDGAME: TORRIJOS'S BOTTOMLINE ON THE FTA

1) (SBU) President Torrijos and First Vice-President Lewis informed me this morning that VP Lewis plans to travel to Washington on Monday, April 27 to bring to closure their efforts to get the U.S./Panama Free Trade Agreement (FTA) approved in the remaining two months this government has in office. VP Lewis will seek meetings with President Obama's Chief of Staff Emanuel, National Security Advisor Jones along with Deputy National Security Advisor Froman and National Security Council Director of Western Hemisphere Affairs Restrepo, Speaker Pelosi, and U.S. Trade Representative Kirk.

2) (SBU) VP Lewis explained that the purpose of his trip is to define clearly what the Torrijos administration can deliver and to seek clarity from the USG on whether what the Torrijos administration can offer is sufficient to move the treaty to and through Congress. Torrijos and Lewis were both heartened by their meetings at the Summit of the Americas, particularly by President Obama's comments (at the SICA meeting) expressing his desire to see the FTA passed during Torrijos's time in office.

3) (SBU) Lewis repeated the GOP's bottom line: if the Administration sends the FTA to Congress, President Torrijos will convene a lame-duck session of the National Assembly to use his party's majority to push through the package of labor reforms being finalized now in Washington, along with legislation to immobilize bearer shares. Lewis said that the signal of partnership that would be sent by approval of the FTA would put the U.S. and Panama on strong footing to address the contentious issue of tax-information exchange agreements as a stand-alone issue, preferably in the OECD/G-20 context to avoid injecting inflammatory "nationalist" (read anti-U.S.) rhetoric into the discussion. President Torrijos was explicit that he does not have the political capital to tackle the anti-TIEA lobby at the same time he is dealing with labor issues and immobilizing bearer shares. (Comment: We agree. It is taking an enormous amount of political capital to stand down the bearer share lobby. End Comment.)

4) (SBU) After VP Lewis delivers his message outlining the bottom line of President Torrijos, he wants to shake hands (ideally with Chief of Staff Emanuel) on a FTA game plan for the United States and the Torrijos Administration. President Torrijos told me that he sees two options before us. The first option--Plan A--is President Obama submitting the FTA for Congressional ratification. After submission to Congress, President Torrijos will push the labor reform

package and legislation to immobilize bearer shares through the National Assembly (dominated by his party). President Torrijos then expects the Congress to vote on the FTA. If Plan A is not viable from the American perspective--either for timing reasons, or because the U.S. insists that the FTA be conditioned on a TIEA--then President Torrijos will put FTA negotiations "on ice" and end his term in office with his current strong relationship with the United States. He will pass the FTA to the next administration and graciously lose what he considers a "legacy" issue.

5) (SBU) Comment: For President Torrijos and VP Lewis, whose fathers negotiated and signed the Panama Canal Treaties, the FTA represents their chance to be remembered as leaders who sealed the deal cementing a partnership between the U.S. and Panama. Their enormous political and emotional investment has enabled us to put together a very attractive package: not only labor reforms but also effective action to address the bearer share issue flagged as the key deficiency both by FATF and our own money laundering report. In the end, this FTA is not centrally about trade: while the agreement brings duty-free access for U.S. goods, what little Panama sells the U.S. already enters duty-free. For the Torrijos administration, the FTA is primarily an investment in a partnership with the U.S. If the price for that partnership is beyond what his administration can pay (i.e., a TIEA), President Torrijos has instructed his Vice President to focus first and foremost on preserving the strong relationship with the U.S. he hopes will be a key legacy of his administration. To avoid the damage to relations that would result from the U.S. administration making a TIEA a condition for the FTA, Torrijos and Lewis will sacrifice their goal of FTA passage. I cannot state strongly enough how beneficial it would be for our foreign policy interests to ratify the partnership with Panama under this administration so we can tackle the TIEA talks on the strongest possible footing with the incoming government, which may well take many months to get fully formed and operational. End Comment.
STEPHENSON